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IN THE

Supreme Court of the United States

OCTOBER TERM, 1945.

NO. [redacted] 28

ALPINE MacGREGOR, Petitioner,

v.

WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY, a Corporation, Respondent.

On Writ of Certiorari to the Supreme Court of the State of Pennsylvania.

PETITION FOR REHEARING

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PETITION FOR REHEARING

To the Honorable, the Chief Justice and Associate Justices of the Supreme Court of the United States:

Comes now, Alpine MacGregor, petitioner, in the above cause, and respectfully prays for a rehearing or other relief and for a stay of issuance of the mandate of this Court.

The judgment of the Supreme Court of the State of Pennsylvania, holding petitioner estopped to prove illegality of a patent royalty contract containing price-fixing provisions under an invalid patent in violation of the Sherman Act, was affirmed by this Court on Febru-

ary 11, 1946, by an order *per curiam,* this Court being equally divided.

The failure of the Court to reach a decision is particularly unfortunate in the instant case because it may effectuate an unlawful object and aid in the defeat of a legal prohibition in contravention of the public policy of the Sherman Act.

Petitioner prays for an order vacating the order of February 11, 1946 and for a rehearing on the question of violation of the Sherman Act, under the law of *Sola Electric Co. v. Jefferson Electric Co.,* 317 U.S. 173.

Because of the public importance of the question, a rehearing is especially desirable since at the time of the hearing two of the Justices were absent from the Bench. The present case does not present a situation where a Justice is disqualified and it may reasonably be expected that a rehearing by a full Bench would result in a final adjudication; *Mayor of New York v. Miln,* 8 Peters 120; 33 U.S. 120; 8 L. Ed. 88.

In the following cases petitions for rehearing were granted to avoid the failure of justice by a four-to-four tie vote due to the absence of one of the Justices:

Bernards v. Johnson, 313 U.S. 537; 313 U.S. 597;

Lisenba v. California, 313 U.S. 537; 313 U.S. 597;

Commercial Molasses Corp. v. N.W. Tank Barge Corp., 313 U.S. 541; 313 U.S. 596;

N.Y., Chicago & St. Louis Railroad Co. v. Frank, 313 U.S. 538; 313 U.S. 596;

Toucey v. New York Life Ins. Co., 313 U.S. 538; 313 U.S. 596;

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Gray v. Powell, 312 U.S. 666; 313 U.S. 596.

The Case of Sola Electric Co. v. Jefferson Electric Co., 317 U.S. 173, Should Be Interpreted and Clarified.

The importance of having the merits of the present case definitely decided under the law as pronounced by this Court in *Sola Electric Co. v. Jefferson Electric Co.,* 317 U.S. 173, is that the Supreme Court of Pennsylvania has held petitioner estopped from setting up illegality of a price-fixing contract prohibited by the Sherman Act,—

> "* * * on the principle that a licensee cannot challenge the validity of a patent which is the subject of a license which he has accepted to sell or use * * *." (R. 243)

Petitioner, relying upon the decision by this Court in *Sola Electric Co. v. Jefferson Electric Co., supra,* and the cases therein cited, *United States v. Univis Lens Co.,* 316 U.S. 241, 250; *United States v. Masonite Corp.,* 316 U.S. 265, 275-77, and *Morton Salt Co. v. Suppiger,* 314 U.S. 488, 492-93, denies that the doctrine of estoppel can rightly be applied to patent licenses containing price-fixing provisions because such agreements, if not supported by a valid patent, are illegal under the Sherman Act.

To sustain its rights to hold petitioner accountable for royalties under an *invalid* patent for the manufacture and sale of articles not even disclosed by the patent, respondent relies on the doctrine of estoppel as applies to a licensee under a *valid* patent.

It is well settled law that—

"A party to a transaction prohibited and penalized by law cannot estop himself from setting up its invalidity." *Central of Georgia Ry. Co. v. Blount et al.*, 238 F. 292 (C.C.A. 5).

In the *Central of Georgia* case the Circuit Court of Appeals for the Fifth Circuit had before it the question of unjust discrimination by a carrier by charging one person less for services rendered in the transportation of the property than it did others for like services, prohibited by the Elkins Act. The defendant therein sought to dismiss the bill on the ground, *inter alia*:

"Because the complainant, having executed the said lease and having thereby induced and moved the defendant to erect the manufacturing plant and build up a business therefrom of great profit, is estopped to claim and obtain, from the court of equity, its intervention to cancel or reform said lease."

In *McCutcheon v. Merz Capsule Co.*, 71 F. 787, 19 C.C.A. 108, 31 L.R.A. 415, the Sixth Circuit Court of Appeals, per Judges Taft, Lurton and Hammond, considered a case of a proposed purchase of all of the plant and assets of the Merz Capsule Company by a new corporation to be organized, such act being unlawful under the Michigan Anti-Trust Statute and in excess of Merz Capsule Company's corporate powers under the law and policy of the State of Michigan in respect to its domestic corporations. After the formation of the new corporation, Merz Capsule Company, relying upon the illegality of the agreement, refused to convey its property and sought to be relieved of the illegal agreement. The Court said:

"Though a deed and bill of sale had been executed and delivered in furtherance of the original agreement, possession has not been surrendered, and the bonds to be delivered in payment have neither been delivered nor executed.

* * * * * * *

"Under all these circumstances, to hold that the complainant is estopped to rely upon the illegality of the agreement and conveyance to which it was a party would be to effectuate an unexecuted, unlawful object, and aid in the defeat of a legal prohibition. * * * The decree of the court declaring the illegality of the agreement of November 29, 1893 and of the deed of December, 1893, and restraining the appellants from interfering with the title or possession of appellee under color thereof, should be, and accordingly is, affirmed."

In *Joy v. Godchaux,* 35 F. 2d 649, the Circuit Court of Appeals for the Eighth Circuit had before it the question of estoppel arising in a suit by a Receiver for the collection of notes given in payment of the issuance of stock. The Court said:

"If the notes in question were absolutely void under section 6, art. 12, of the Constitution of Texas, or under its statutes, then the doctrine of estoppel would not apply, as estoppel cannot make valid that which the Constitution and laws of a state make absolutely invalid, * * *."

These cases by the Fifth, Sixth and Eighth Circuit Courts of Appeals, contrary to the decision of the Supreme Court of the State of Pennsylvania in this cause, uniformly hold that estoppel by agreement cannot be resorted to in contravention of a public policy statute.

This was also recognized by Mr. Justice Frankfurter in the recently decided case of *Scott Paper Co. v. Marcalus Mfg. Co.*, reported 67 USPQ 193, where, in a dissenting opinion, he said (p. 200):

> "*Of course, parties cannot by agreement defeat an explicit provision or purpose of legislation.* One shipper cannot, for instance, secure the private advantage of a lower rate when the Interstate Commerce Act provides for equality of rates among shippers, Pittsburgh, etc., Ry. Co. v. Fink, 250 U.S. 577; nor can an employer defeat the protective purpose of the Fair Labor Standards Act setting minimum wage limits, by an agreement based on the inequality of bargaining power between employers and individual employees, Brooklyn Savings Bank v. O'Neill, 324 U.S. 697, 706." (Emphasis supplied)

In the *Sola* case this Court held precisely the same thing when it said:

> "The federal courts have been consistent in holding that local rules of estoppel will not be permitted to thwart the purposes of statutes of the United States."

That estoppel by agreement cannot be invoked to set at naught the prohibitions of a federal statute was recognized by the court below, which said (R. 240):

> "* * * An estoppel whose operation will result in a contravention of Federal Anti-Trust laws is outside the pale of judicial recognition. It follows that when an estoppel is invoked and the opposing party alleges that its application is inconsistent with a Federal law it becomes the duty of the tribunal to determine every fact which is relevant to the issue thus raised. The validity of any 'protective' patent

invoked by the propounder of the estoppel becomes such a determinative 'fact'."

The Court nevertheless enforced the estoppel by holding that the doctrine of the *Sola* case is applicable only where a party is seeking to have the courts enforce the illegal provision (price-fixing) of an agreement. To so restrict the doctrine of the *Sola* case is inconsistent with the decision itself, which deals with the license *contract* and not with the *use* made of such contract, whether for enforcement of price-fixing provisions or the enforcement of the payment of royalties under such illegal contracts. In the *Sola* case this Court said:

> "The present license *contract* contemplates and requires that petitioner, on sales of the licensed transformers throughout the United States, shall conform to the prices fixed by respondent for the sale of competing patented articles by other licensees and by respondent. Such a restriction on the price of articles entering interstate commerce is a violation of the Sherman Act save only as it is within the protection of a lawfully granted patent monopoly. See United States v. Univis Lens Co., 316 U.S. 241, 250 (53 USPQ 404, 408), and cases cited; United States v. Masonite Corp., 316 U.S. 265, 275-77, (53 USPQ 396, 400-401). Agreements fixing the competitive sales price of articles moving interstate, *not within the protection of a patent, are unlawful because prohibited by the Sherman Act.*" (Emphasis supplied)

There is nothing in the *Sola* case that justifies the view adopted by the lower Court, namely, that agreements containing price-fixing provisions are illegal only if a party is seeking to have the courts enforce the price-

fixing clause, and are not illegal if such price-fixing provisions are not sought to be enforced in any litigation involving such price-fixing agreements.

Affirmance by an Equally Divided Court of the Decision of the Supreme Court of Pennsylvania Defeats the Basic Purpose of the Certiorari Jurisdiction of This Court.

One of the grounds relied upon by petitioner for the allowance of the petition for writ of certiorari to the Supreme Court of the State of Pennsylvania, Point II of our main brief on certiorari, is that the decision in this case is in conflict with a decision by a Federal court, the Seventh Circuit Court of Appeals in *Chicago Metallic Manufacturing Co. v. Katzinger Co.*, 139 F. 2d 291, *on identically the same facts.* On February 9, 1946, two days before entering of the order by the Court in this case affirming, by an equally divided Court, the decision of the Supreme Court of the State of Pennsylvania, a final decree was reported affirmed by the Circuit Court of Appeals of the Seventh Circuit in *Chicago Metallic Manufacturing Co. v. Katzinger Co.*, 68 USPQ 102, and if the decision by the Pennsylvania Supreme Court is allowed to stand by affirmance of this Court, there will be a direct conflict between the Seventh Circuit Court of Appeals' decision and that of the Pennsylvania Supreme Court on the question of anti-trust violation as pronounced in the *Sola* case. In the first decision in the *Chicago* case, *supra*, reported 139 F. 2d 291, the Court said:

> "The appellee will not be heard to say that it really was not in favor of the provisions as to price-fixing contained in a written agreement it had signed, or that *it did not practice price-fixing.* The important thing is that the appellee had provided by contract

for the right to fix prices. * * * *There was no justification for the construction that the District Court put upon it to avoid the scope of the Supreme Court's opinion in the Sola case.* By the plain provisions of the license agreement, there were arrangements for price-fixing. This was not a separable provision of the agreement, and it was, like the rest of the agreement, based upon a common consideration and was a part of the contract after notice of determination, though functus officio as to the future." (Emphasis supplied)

In the present cause, respondent by telegram quoted bottom of page 11 of our brief, cancelled the price-fixing provision after trial in the court below. But the Court in the *Chicago* case said:

"The agreement was not purged of the deleterious effect of the price-fixing arrangement by notice of termination. *The vice lay in its incorporation in the contract at all.*" (Emphasis supplied)

On the facts thus presented, which are identical with the facts (there being no attempt in the *Chicago* case, *supra,* to *enforce* price-fixing provisions), the court, in construing this Court's opinion in the *Sola* case, said:

"We decide on the authority of the Sola case, supra, that the appellant was not estopped to deny the validity of the patents, because the license agreement which provided for the estoppel carried a provision for price-fixing. For that reason, no estoppel could arise."

Pursuant to the decision there rendered, the case (freed of the question of estoppel) went back to the District Court for a determination of the question of

validity of the patent, which was held invalid. On the second appeal to the Seventh Circuit Court of Appeals, decided January 22, 1946, and reported for the first time on February 9, 1946, 68 USPQ 102, the court, in reviewing its former decision, said:

> "A decree was entered by the district court on April 24, 1943 in which it was held [57 USPQ 58] that the patent in suit, known as the Jackson patent, was valid as between appellee and appellant and infringed, and an accounting was ordered. The holding of validity was as between the parties only, and was based solely upon the ground of estoppel because of the license agreement heretofore referred to. An appeal was taken from this decree, and this court held on authority of the case of Sola Electric Company v. Jefferson Electric Company, 317 U.S. 173, 63 S. Ct. 172, 87 L. Ed. 165 [55 USPQ 379], that estoppel did not apply, owing to the fact that the license agreement contained a provision for price fixing, and the cause was remanded to the district court. Chicago Metallic Manufacturing Company v. Edw. Katzinger Company, 139 F. 2d 291 [60 USPQ 54] (C.C.A. 7). Thereafter, on September 27, 1944, the district court entered a final decree wherein it held that the Jackson patent in suit was invalid and dismissed the counterclaim, which charged infringement, for want of equity.
>
> * * *
>
> "The decree of the district court is affirmed."

The foregoing decision presents the anomalous situation where a litigant in the Seventh Circuit has the right to establish illegality of a patent royalty contract, containing price-fixing provisions, by proof of invalidity

of the patent, but which, by the affirmance by this Court of the decision by the Supreme Court of Pennsylvania in this cause, is prohibited in the State of Pennsylvania.

A hearing is desirable in the present case, not alone because of the public importance of the question of whether price-fixing agreements under invalid patents are a violation of the Sherman Act, but also because the affirmance of the decision of the Supreme Court of the State of Pennsylvania creates a direct conflict with the decision and policy of the federal courts. In the *Sola* case this Court said:

"To the federal statute and policy, conflicting state law and policy must yield.

* * *

"Local rules of estoppel which would fasten upon the public as well as the petitioner the burden of an agreement in violation of the Sherman Act must yield to the Act's declaration that such agreements are unlawful, and to the public policy of the Act which in the public interest precludes the enforcement of such unlawful agreements. Cf. Morton Salt Co. v. Suppiger Co., 314 U.S. 488, 492-93 (52 USPQ 30, 32-33)."

The crucial facts are the same in both the *Chicago* case and in this case. Both the Seventh Circuit Court of Appeals and the Supreme Court of Pennsylvania have fully discussed the *Sola* case and the two diametrically opposed decisions are irreconcilable under the *Sola* decision.

The vital question of law, e.g. the application of the doctrine of the *Sola* case as to whether estoppel by agreement is a bar to the determination of the question of legality of such agreement under the Sherman Act

has been decided. It is for this Court to pronounce which of the two decisions is the proper interpretation of the *Sola* case.

To protract a final adjudication in the case at bar would unduly burden this Court with further consideration of the important questions of law involved in this cause, it being reasonable to believe that because of the affirmance by this Court of the decision by the Supreme Court of the State of Pennsylvania, this Court will be petitioned and will grant a writ of certiorari to review the conflicting decision of the *Chicago* case, *supra*. If the present petition for rehearing is denied and the *Chicago* case affirmed, petitioner has no remedy, and petitioner respectfully prays that the Court, by way of granting petitioner further relief, enter an order staying issuance of its mandate during the present term of court so that if this Court is petitioned for a writ of certiorari to the Seventh Circuit Court of Appeals in the *Chicago* case, *supra*, petitioner would have the benefit of a final adjudication of the question of interpretation of the law of the *Sola* case.

Respectfully submitted,

WILLIAM B. JASPERT,
Attorney for Petitioner.

I, William B. Jaspert, attorney for the above named petitioner, do hereby certify that the foregoing petition for rehearing or other relief and for stay of issuance of mandate is presented in good faith and not for delay.

WILLIAM B. JASPERT.

February 25, 1946.